A Conflict of Interest?

An Analysis of the World Bank Group's Coordinated Efforts in the Mining Sector of Reforming Countries

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Abstract

The coordinated pursuit of risk investments at the heart of the World Bank Group's strategy for the mining sector of reforming countries is the subject of this contribution. The crux of this paper is to investigate how the multi-front presence of the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the World Bank, has been transforming the roles, responsibilities and legitimacy of the stakeholders involved in mining activities. It is argued that beyond the newly defined social-development narrative championed by each member of the Group, the actual safeguards and policies being carried out in the mining sector may be better understood as tools to circumscribe the risks faced by the Industry, rather than by local populations. This further stresses the particular contradictions inherent to the concerted actions of on the one hand, the World Bank itself, which has been especially active in promoting new mining regimes in country clients, and on the other hand, IFC and MIGA, which have been benefiting from such regimes by engaging in for-profit activities in the very sector.

Keywords:

International Finance Corporation (IFC), Mining, Multilateral Investment Guarantee Agency (MIGA), Social-development narrative, World Bank.

RITSUMEIKAN INTERNATIONAL AFFAIRS **Vol.8, pp.57-84 (2010).**

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The author would like to thank the anonymous reviewers for their valuable comments on an earlier version of this article.

Introduction

In December 2008, the soaring of metal prices came to a screeching halt, thus gravely affecting mineral dependant countries. Beyond the issue of the sharp decline in prices however, the global recession's main challenge has been the lack of credit available for the industry. Consequently, the production has been forced to slow down, mines have closed and exploration programs have been put on hold. Interestingly however, Robert Zoellick, the president of the World Bank, announced that amidst the current economic crisis, the extractive resources industry more than ever, would have to benefit the poor (Zoellick, 2009). In light of the current credit crisis and the deceleration of global mining activities, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have been sent to the rescue. The Bank affiliates' 'counter-cycle role' is seen as pivotal in time of crisis, as it entices Foreign Direct Investments (FDI) where investors would have otherwise been reluctant to invest in.

The coordinated pursuit of 'risk' investments at the heart of the World Bank Group's strategy is the subject of this contribution. While the World Bank is involved in an historical process of compelling governments to revise their national laws, policies and institutions in order to attract investments, IFC and MIGA are partnering with the private sector, providing investments and insurance for mining endeavours in the newly reformed countries. Such efforts in recent years have been met with severe criticism linked to the significant social and environmental costs of mining activities, not withstanding the political instability, corruption and violent conflicts such activities have often brought forth. As a result, the World Bank Group (WBG) has embraced a 'social-development narrative' which emphasises transparency and governance, local communities involvement in participatory schemes and overall, pro-poor economic growth in a sustainable perspective. The crux of this paper is to investigate how such multi-front presence of the different members of the WBG has been transforming the roles, responsibilities and legitimacy of the stakeholders involved in mining activities. It is argued that beyond a newly define social-development narrative, the safeguards and policies being carried out in the mining sector may be better understood as a tool to circumscribe the risks faced by the Industry, rather than by local populations. Such argument further stresses the particular contradictions inherent to the concerted actions of on the one hand, the World Bank itself, which has been especially active in promoting new mining regimes in country clients and therefore has been partly credited for the mining boom of the last decade, and on the other hand, IFC and MIGA, which have been profiting from such regimes by engaging in for-profit activities in the very sector.

This paper is divided into three parts. The first section briefly describes the roles and functions of MIGA and IFC in the mining sector of reforming countries, with a particular emphasis on recent trends. In light of their role as catalysts for risk investments in the industry, the second section addresses MIGA and IFC's questionable legacy in the sector. It will further be observed that as a result of such mitigated legacy, notably in relation to environmental and social safeguards, the WBG has recently transformed its image by adopting a 'social-development narrative'. However, it will be argued that the new safeguards and policies promoted under the social-development narrative umbrella are *de facto* relegating the greater responsibility of environmental and social protection upon the shoulders of the Industry. In the final section of this contribution, this faith on the ability – and willingness – of the private sector to self-regulate will be questioned. It will therefore be argued that the coordinated efforts of the WBG are particularly telling of a specific framework which seriously impedes mineral-rich reforming countries to explore and adopt alternative economic strategies in the sector, which ultimately may have proven to be more conductive to poverty reduction.

I. IFC, MIGA and the Pursuit of Risk Investments

While the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) work solely with governments[1], the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) provide loans to private corporations with projects in emerging markets. The coordinating mechanisms between the Bank and its affiliates are focused on each member's comparative advantage. As such, the Bank is officially responsible for country policy dialogue and tends to focus on broader structural and social

1) Hereafter IBRD and IDA are referred to as 'the World Bank' or 'the Bank'.

issues, including sector policy reform and institutional capacity building. IFC focuses on attracting private sector investment, particularly in countries where its projects are expected to *catalyse* new investments, while MIGA specialises in providing political risk guarantees (World Bank, 2005: 3). In this section, the roles of IFC and MIGA will respectively be defined. A specific emphasis will be put on their unique ability to attract 'risk' investments, notably in the mining sector.

Established in 1956, IFC is the private sector lending arm of the WBG. It is a for-profit organisation which aims to support the growth of the private sector in developing countries. It does so primarily by financing private sector investment, mobilising capital in the international financial markets, and providing advisory services to businesses and governments (IFC, 2009d). With its $1.5 billion net income in the 2008 fiscal year (IFC, 2008: 12), IFC is the largest multilateral financial institution investing in private enterprises in emerging markets. The organisation disbursed close to $11 billion in 2007, almost one third that of the entire WBG (Bretton Woods Project, 2008).

MIGA's central mission is to promote FDI in developing countries. Its main activities are to insure FDI against the risks of expropriation, war, civil disturbance, terrorism, and sabotage; currency inconvertibility and transfer restrictions; as well as breach of contract (MIGA, 2009c: 1). Since its inception in 1988, MIGA has issued nearly 900 guarantees worth more than $17.4 billion for projects in 96 developing countries (MIGA, 2009a). In addition to providing political risk insurance, the Agency also offers technical assistance such as capacity building and advisory services to help countries attract FDI, as well as dispute mediation services[2] in order to reduce future obstacles to investment.

Closely complimenting the Bank's own activities in the sector, IFC and MIGA have played a significant role over time in the mining sector of reforming countries. Today, IFC dedicates about six percent of its total lending portfolio to the extractive industry[3] (World Bank, 2005: 2). Bill Bulmer, the head of Mining IFC, estimated that the Corporation's mining portfolio is worth about $840 million (Mining Journal, 2009). MIGA's activities in the mining industry represent four percent of its outstanding

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2) MIGA also provides dispute mediation services and works with the International Centre for Settlement of Investment Disputes, which operates through conciliation or arbitration.

3) Define as oil, gas, and mining production.

guarantee portfolio in 2008. This share remains nonetheless quite substantial as the Agency's mining portfolio currently stands at $269 million (MIGA, 2009c: 3).

However, MIGA and IFC's influence in the extractive industry extends far beyond the mere numbers of their respective portfolios. What is indeed crucial to note is that the extent of the Bank's affiliates influence over the mining industry is better defined by their respective ability to act as catalysts for private sector investments. For example, since its inception MIGA has issued a total of $11billion in coverage while it further facilitated an estimated $47 billion of FDI (Bray, 2003: 324). It has also been particularly active in promoting new mining ventures in Africa, for example, by sponsoring investment conferences (Bray, 2003: 325).

MIGA and IFC's significant influence further extends to their ability to entice private investments in particularly risk countries, as well as in risk sectors. Foreign investors often hesitate to invest in countries with weak governance – notably countries where the lack of transparency, adequate laws, financial capacity and regulations may seriously impede mining projects.

Over the years, MIGA has designed political risk insurance products specifically to target mining-related investors, such as the revocation of leases or concessions, tariff, regulatory, and credit risks arising from breach of government contracts, and disputes related to take-off agreements, and exploitation rights (MIGA, 2009c: 1). As such, MIGA's power to galvanise investments in risk countries is overwhelming, notably in the extractive industry which is specifically defined as a high-risk sector. The WBG's independent evaluation units, which published an extensive study of the extractive industries and their impact on sustainable development, observed that most of MIGA's projects were in countries: 'where international private investors had been reluctant to make large investments because of limited experience with new governments or difficulties faced by previous investments in that country or sector' (World Bank, 2005: 6). The report further underlines that in these instances, MIGA's role was 'significant in enabling investment flows into the mining sector' (2005: 6).

In a way, MIGA's very *raison d'être* is precisely to facilitate investments in high-risk, low-income countries – such as in Africa and conflict-affected areas (MIGA, 2009a). It has indeed been closely involved in motivating private sector investments in conflict-affected countries, which is an 'operational priority for the agency', states MIGA (2009a). As the 'world leader' (MIGA, 2009a) in assessing and managing political risks, it has indeed become a key player in enticing investors to transcend their weariness of potential risks in investing in such climates.

Similarly, IFC's own *Operations Evaluation Group* (OEG) found that the organisation played a *catalysing* role in the extractive industry, often being the first private investor in the sector (OEG, 2005: 115). In fact, IFC' s dedication to stimulate investment in 'risk' projects or countries is enshrined in its article of agreement, which underlines that the Corporation shall adopt a role of catalyst by investing only in projects for which sufficient private capital is not available on reasonable terms[4)].

II. The WBG and the Rise of the Social-Development Narrative

The *Extractive Industries Review* (EIR), which was established in 2003 to evaluate the WBG's involvement in extractive industries, found that while extractive industries can yield benefits for countries, data suggests that developing countries with few natural resources grew two to three times faster than resource-rich countries from 1960 to 2000 (EIR, 2003: 12). The Review further observed that the majority of the 45 countries that did not manage to sustain economic growth during that time also experienced violent conflict and civil strife in the 1990s (2003: 12). The multiplication of socio-environmental problems linked to extractive activities, not withstanding the ambiguous economic benefits of the industry, led to highly critical literature suggesting that the actual benefits of the mining industry may have been overstated. The underlying idea of the 'resource curse' suggests that an abundance of natural resources creates political and economic distortions, thus increasing the likelihood that countries will experience negative development outcomes (Rosser 2006: 7), a reality that is now widely acknowledged by all stakeholders in the industry[5)]. The WBG is no exception: 'resource-rich countries are indeed more likely to have problems achieving important development goals', states the Bank in a recent evaluation of its experience in the extractive

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4) Available at http://ifcln1.ifc.org/ifcext/about.nsf/Content/IFC_Origins (accessed October 10, 2009).

5) See Auty (1993), Sachs and Warner (1995). For a thorough critical literature review on the subject see Rosser (2006).

sector (OEG, 2005: 120).

This section provides an overview of the social and environmental issues associated with the mining industry and the particular experiences of IFC and MIGA. The second part of this section suggests that the WBG has recently significantly transformed its image by adopting what is here referred to as a 'social-development narrative'. However, it will be noted that the new safeguards and policies promoted under the social-development narrative umbrella are *de facto* relegating the greater responsibility of environmental and social protection upon the shoulders of the Industry.

a) Managing 'Externalities': MIGA and IFC's Legacy in the Mining Sector

Mining in itself has been acknowledged to be one of the most environmentally disruptive activities that can be undertaken by business (Bebbington et al., 2009: 893). From an environmental standpoint, the possible impacts of large-scale mining projects are overwhelming. They notably include: the destruction of natural habitats as a result of the dumping of tailings and discharges; soil degradation and acid mine drainage; riverbed pollution; chemical soil contamination; air emissions (dust, pollutants); the use of scarce water and energy resources; workers handling chemical products; and the different risks associated with exposure to toxic substances (Beleme, 2008: 121). To put it simply, the creation of one single gold ring requires miners to dig up more than 30 tons of rock – which then need to be sprinkled with cyanide (Johnson and Perlez, 2005). The mining industry is all the more problematic as its environmental implications extend well beyond the duration of the mine's activity and as such, mine closure is a highly sensitive issue. In a critical analysis of the WBG's activities in the gold mining sector, a coalition of international Non-Governmental Organisation (NGOs) gave a compelling depiction of the potential long-term damages of mining activities:

> [···] the typical modern gold mine [···] often irreversibly alter landscapes, displace communities, contaminate drinking water, harm workers, and destroy pristine ecosystems or farm lands. Pollution caused by mining can last for thousands of years, destroying forever land and water resources that local communities depend on for their livelihoods (BIC et al., 2006: 2).

While the 1990s witnessed a greater emphasis on environmental issues, the social and human rights dimensions of mining activities have started getting more attention only in recent years. However, notes Szablowski: 'In practice, responsibilities for social impacts are often regarded rather loosely by both mining enterprises and governments. Despite its potential, social impact assessment remains the "orphan of the assessment process"' (2007: 51). Nevertheless, it is now widely understood that communities living in the vicinity of a mining site often bear an overwhelming share of the negative impacts of the extractive industry. Building on the case of the Malian mining sector, Belem found that such projects tend to exacerbate income disparities and directly affect the local community through: population displacement; increased migration of workers into the project zone; price inflation resulting from this migration; the abandonment of agricultural activities; expropriation of fertile land to satisfy the mine's requirements; and increased public health problems (2009: 122). Such inherent social problems brought forth by the mining industry are often exacerbated in countries where conflicts have already erupted and where corruption is rampant. As observed in the EIR:

> In a number of countries, extractive industries have been linked to human rights abuses and civil conflict. Such abuses have been documented, for example, in cases where the army has been called in to guard extractive industries projects. Indigenous peoples and local communities may be forced off their lands to make way for projects, and those protesting the development may be locked up or physically harmed. The large economic rents generated by extractive industries may help provoke or prolong civil conflict (EIR, 2003: 6).

The environmental, social and human rights costs of mining activities, especially in already fragile and conflict-affected countries, raise important concerns about the WBG's specific strategy adopted in order to entice investments in the sector. MIGA and IFC have repeatedly stated that it is precisely in light of these particular risks that they should remain involved in such industry. Both organisations argue that they help bring economic growth where it is most urgently needed: 'In places where the poor might otherwise be left behind, we play a catalytic role', states IFC (2008: 33). Beyond their official mission to tackle poverty however, the Bank affiliates repeatedly stated that they bring to the sector safeguard policies and guidelines that 'improve projects beyond compliance' (OEG, 2005: 118).

However, the particular track record of the Bank's affiliates in the industry has been severely tarnished over the years. Amongst the better-known cases is the incident at the Yanacocha mine, a Peruvian open pit gold mine – which is incidentally so large that it can be seen from outer space[6]. A truck from the mine, which is one of the most profitable investments in the entire IFC portfolio (Bebbington et al., 2008: 896), spilled 150 kilograms of mercury on a road. The incident, which took place in 2000, reportedly brought more than 1,000 people to state that they were affected by the spill (BIC et al., 2006: 3). On another continent, in May 1998, the Kumtor gold mine in Kyrgyztan, which is financed and insured by IFC and MIGA, released nearly two tons of sodium cyanide into the Barskoon river (EIR, 2003: 26), leaving several people dead and hundreds seeking medical treatment (BIC et al., 2006: 4). In line with such trends, the controversial Freeport company, the operator of a copper and gold mine in New Guinea which was insured by MIGA, dumped 120,000 tonnes of toxic mining waste into a local river (BIC et al., 2006: 4)[7].

The Compliance Advisor/Ombudsman[8] (CAO) concluded in 2002, that MIGA's attention to social issues was 'weaker than its coverage of environmental aspects' (CAO 2002: iv). It further observed that the Agency had failed to flag early on in its review process a number of potential social impacts that might adversely influence a project's outcomes[9] (2002: iv). The WBG's own evaluation units critiqued the Agency in 2005 for its lack of a 'proactive approach with its clients throughout its involvement with the projects to add value by improving their environmental and social impacts' (World Bank, 2005: 8).

It is in light of the extent of the social and environmental problems linked to the extractive industry that James D. Wolfensohn – the World Bank president at the time –ordered two-year moratorium on the WBG's

6) According to Bury (2005), quoted by Bebbington et al. (2008: 894).

7) For further analysis and case studies on the social and environmental legacy of the WBG, see notably BIC et al. (2006), Campbell (2004; 2009), Bury (2005), Goldman (2005).

8) The CAO was created in 1999 to improve the environmental and social performance of the IFC and MIGA, and to address complaints of people affected by its projects.

9) In half of MIGA's projects reviewed by the CAO. The CAO further found that: 'Potential social issues that were not initially flagged were almost never picked up later in MIGA's review process' (2002: iv).

mining investments and a review of its involvement in the industry. While the EIR, which emerged from this process, did conclude that there was still a role for the WBG in the sector, it however underlined that such role should be strictly limited to one of contributing to sustainable development[10]: 'Extractive industry projects considered for World Bank Group support should be evaluated to ensure that their expected benefits especially for the poor are sufficiently higher than their estimated costs, including environmental and social costs' (EIR, 2003: 4).

In its official response to the independent evaluation, the Bank declared: 'Our future investments in extractive industries will be selective, with greater focus on the needs of poor people, and a stronger emphasis on good governance and on promoting environmentally and socially sustainable development' (World Bank, 2004: iii). The Bank further argued that it had already started implementing many of the EIR's recommendations, including: initiatives on gas-flaring reduction, carbon-emissions trading, revenue transparency, help for small-scale mining operations, and increased support for biodiversity (World Bank, 2004: iii). It is a fact that by the end of the 1990s, the Bank had substituted its conventional policy recommendation framework for one that promoted far stricter environmental and social clauses.

While the Bank does today acknowledge that extractive industries may 'aggravate or cause serious environmental, health, and social problems, including conflict and war' (World Bank, 2005: 1), it remains adamant that such negative impacts are not inevitable. It thus proposed a social-development narrative in order to maximise the contribution of mining activities to development. The motivations and the content of this emergent narrative are analysed in detail in the following section.

b) The Rise of the Social-Development Narrative

The end of the 1990s witnessed an important shift in the World Bank's narrative as a whole. During the Wolfensohn's presidency (1995-2005), the Bank indeed shifted from its austere narrative centred on the blind pursuit of economic growth to a more 'comprehensive' way of doing business[11]. Such shift was notably influenced by the fact that as he took his position

10) For a thorough analysis of the EIR and the WBG's following response, see Campbell (2009).

11) See James D. Wolfensohn's 'A proposal for a Comprehensive Development Framework: a Discussion Draft' (1999).

in 1995, Wolfensohn was inheriting an arrogant institution which was drawing fire from all sides of the spectrum[12]. Amongst the numerous verbal critics, the international campaign *Fifty Years is Enough* did a lot to tarnish the institution's already unsteady reputation. The environmental impact of Bank financed mega-projects (see Goldman, 2005), the systematic failure to consult local stakeholders, and the overall lack of transparency of the institution, were some elements of the shaky legacy of Wolfensohn's predecessors – Lewis Preston and Barber Conable. 'Our dream is a world free of poverty', Wolfensohn declared, and in so doing, he committed the institution, at least discursively, to addressing the social aspects of poverty and to forging closer partnerships with other actors in development, including those within civil society[13]. In the remaining of this contribution, this shift in the Bank's narrative is referred to as a 'social-development agenda'. It encompasses the unwavering emphasis on 'poverty reduction' as a central objective of all the Bank's actions, as well as an overwhelming emphasis on social concepts such as civil society participation, environmental protection and empowerment of local entities.

Undoubtedly influenced by its sombre legacy in the sector, as well as by the harsh evaluation of the EIR, the Bank's new social-development narrative has become deeply embedded in its activities in the extractive sector: 'We help people work, prosper, and live better and longer lives', states IFC (2009c). Similarly, MIGA states that it promotes FDI 'to help support economic growth, reduce poverty, and improve people's lives' (MIGA, 2009b). Both MIGA and IFC claim that they stimulate the private sector in reforming countries in order to achieve the Bank's overarching mission to fight poverty. In terms of social and environmental standards, both affiliates' narratives emphasise environmental sustainability of mining operations, while ensuring that mining activities contain a social component to benefit local communities (IFC, 2007b; MIGA, 2009a).

MIGA has its own environmental assessment policy since 1999. However, it approved new social, environmental and disclosure policies in 2006, which were inspired by IFC's own standards. Today, MIGA has mechanisms in place to officially evaluate the potential environmental and social risks and impacts of its projects. The Agency underlines that such

12) On the subject, see Mallaby (2004).

13) For a critical historical review of the international and internal pressures that pushed the Bank under the Wolfensohn presidency to adopt a new aid framework, see Hatcher (2006).

an evaluation helps address the identified adverse environmental and social impacts by improving the project planning and design throughout the implementation of a project (MIGA, 2009c: 2). As stated by MIGA, the social impact assessments 'examine a project's impacts on peoples' living standards, including impacts on their livelihood, and productive and cultural assets' (2009c: 2).

Until the early 1990s, IFC followed the World Bank's safeguard policies, guidelines, and procedures. However, the Corporation started developing its own sector-specific guidelines for areas not covered by the Bank's guidelines, notably in relation to procedures for environmental review (1992-93)[14]. In 2006, no doubt as a result of the severe conclusions of the EIR, IFC replaced its safeguard policies with the *Policies on Social and Environmental Sustainability* and new *Performance Standards*. These new guidelines clarify what it expects from miners, says Rachel Kyte, the director of environment and social development and IFC (Quoted in Johnson and Perlez, 2005).

While both organisations have taken measures to improve their environmental and social standards, such initiatives however, have been argued to fall short of insuring that future investments would meet the Bank' s own definition of 'environmentally and socially sound projects' – i.e. that they adequately mitigate negative social and environmental effects and, provide tangible and sustainable benefits for local people (OEG, 2005: 113). IFC and MIGA have failed to adopt some of the core recommendations of the EIR, notably the requirement for the free, prior and informed consent of project-affected people and communities. The World Bank stated that it would require 'consultations' – instead of 'consent' – which, bluntly explains the Bank: 'does not mean a veto power for individuals or any group, but means that the Bank Group will require a process of free, prior, and informed consultation with affected communities that leads to the affected community's broad support for the project' (World Bank, 2004: vi).

While the IFC's new Policies on Social and Environmental Sustainability and Performance Standards are to be welcomed, they have already raised important concerns, notably in regard to the assessment methods that they put forth. An overwhelming issue has been the way in which as-

14) Following a substantial change in its review procedures and an initial adaptation of some of its safeguard policies in 1998, the IFC has regularly adapted its guidelines (OEG, 2005: 115).

sessments rely on Industry-generated information. In its analysis of IFC's new Policies and Standards, the *Halifax Initiative Coalition* concludes that: 'A significant degree of leeway is permitted in their application, and non-compliance is tolerated as long as clients continue to improve their performance[15]' (2006: 1). The Social and Environmental Assessment (SEA)[16], which notably determines the necessary improvement and/or mitigation measures of the Action Plan, are indeed to be written by the client and as such, the client has a substantial influence on the range of issues that will later be assessed by IFC. Furthermore, human rights issues are not explicitly required to be addressed by the Industry in the SEA and local communities are not guaranteed the opportunity to review a project's Action Plan before it is finalised[17]. Belem's analysis of the Malian experience corroborates such conclusions. She demonstrates that in practice, observing IFC's performance criteria has become the responsibility of companies and strikingly, that the overall information on the mining sector available for independent assessments originate from the mining companies themselves (2009).

As discussed in the following section, such reliance on the ability – and willingness – of the private sector to self-regulate is particularly telling of the specific framework adopted, and indeed promoted, by the WBG in the last decades.

III. The Politics of the 'Curse': New Mining Regimes and the Social-Development Narrative

Under the distinct leadership of the WBG, the current trends in the mining sector are to emphasise the positive social, environmental and economic impacts that the sector may have on a resource-rich country if the 'right technical framework' is set in place. However, it is argued in this section that the safeguards and policies promoted in the mining sector fall short of ad-

15) Moreover, observes the Coalition, there is no requirement that an IFC client comply with the Performance Standards for the life of the project and beyond (Halifax Initiative Coalition, 2006: 1). For a critical review of the new Policy and Performance standards adopted by the IFC, also see Reisch (2007).

16) The SEA defines how the client will comply with the Performance Standards in the form of project-specific actions and mitigation measures. IFC clients, who assess the anticipated impacts of their projects and identify corresponding mitigation measures, develop them.

17) On the subject, see Halifax Initiative Coalition (2006).

dressing the overarching political implications of the particular mining regimes that has been promoted by the World Bank in the last decade. Specifically, it is argued that if analysed in light of these new mining regimes, the social-development narrative is better understood as a tool to circumscribe the risks faced by the Industry, rather than by local populations. In other words, the promotion of such narrative seeks to complement the void left by the state in the sector by attempting to minimize and channel popular contestation by technical means. This is examined in three steps. First, the historical role of the World Bank in redefining mining regimes in reforming countries is analysed. In the second part, the transformation of the role of the state is assessed in light of the new social-development narrative. The final part provides a critical analysis of the contradictions between the pursuit of poverty reduction and the for-profit endeavours of MIGA and IFC, notably in light of the Bank's parallel work on mining regimes.

a) The World Bank and the Promotion of New Mining Regimes

The first wave of liberalisation and deregulation, which took place throughout the 1980s under the umbrella of the structural adjustment programs, dramatically transformed the mining sectors of indebted countries rich with natural resources, especially on the African continent. The central objective of these reforms promoted by the Bank was to open the mining sector by enticing private investments in the industry. Accordingly, the wave of privatisation of mines was met with the establishment of an amalgam of incentives tailored for foreign investors, notably a reduction in the level of royalties and the abolition of certain taxes.

However, by the early 1990s, it became clear that the promises of the reforms of the mining sector were not materialising. Oblivious to the decline of mineral resources demand in the 1980s, the Bank's re-assessment of the sector, which was notably based on the 1992 publication *Strategy for African Mining* led to what Campbell coined as the *Second Generation* of mining codes[18] (2004). The new wave of reforms distinctively sought to deliver the mining sector to foreign direct investments.

The underlying motivation behind this drive for FDI is linked to the

18) In 'Regulating Mining in Africa: For Whose Benefit?' the *Groupe de Recherche sur les Activités Missinières en Afrique* (GRAMA) provides a detailed analysis of the pivotal role assumed by the Bank in reforming mining regimes in mineral-rich countries over the last three decades (see Campbell 2004).

traditional narrative on the expected benefits of such investments on economic growth and ultimately, poverty reduction. Schools, health centres, clean water, power supply, roads and employment for local – often remote – communities, the promises of the extractive industry seemed infinite. As Africa continues to attract less than one percent of global FDI (Kwaku, 2002), the reform of the mining sector was expected to stimulate investments and as such, counter the economic stagnation and obstacles linked to the lack of local sources of financing and of expertise of reforming countries. In such logic, governments are expected to highly benefit from the much-needed flow of taxes and royalties from the sector, while communities adjacent to the mining projects find employment. With it's tales of fiscal revenues and foreign exchange earnings, the extractive industry often represents the main – if not the only – source of income for highly indebted poor countries.

During the 1990s therefore, mineral endowed countries set out to further transform their mining regimes in order to attract the desired 'high risk' investments. Mining in itself is described as a uniquely risky enterprise: it is a particularly capital-intensive industry, the period between investment and returns is often extensive, and profits are subjected to the whims of commodity prices, not withstanding the uncertainties of geological exploration and reserve depletion rates[19)]. In light of such risks, the Bank stipulates that countries must offer highly competitive settings to draw the scarcely available capital in their own mining sector. As such, the Bank's strategy builds on the logic that 'riskier places and riskier landowners deserve smaller shares of the wealth from resource development' (Emel and Huber, 2008: 1397).

In short, by the end of the 1990s, countries were actively competing for the most deregulated and liberalised mining regime[20)]. The prize

19) Bray refers to the concept of 'obsolescing bargain' whereby extractive industries become 'hostages' in host countries. This is characterised by the understanding that 'once the companies have paid for multi-million-dollar fixed assets, they cannot lightly withdraw from the host country' (Bray 2003: 292). For a critic of the neoliberal conceptualisation of risk, see Emel and Huber (2008).

20) Compelling examples of the mining reforms that took place under the leadership of the Bank during the 1990s are notably Tanzania, Guinea, Zambia, Mali, Burkina Faso as well as Mozambique. All these countries have mineral codes with fiscal regimes that were described as providing very generous incentives to investors in the mining sector. These reforms included: the pegging of royalty at three percent, a complete private ownership of mining ventures; increased quota of expatriate staff, with quotas determined by the investor among others (see Akabzaa 2004).

sought after was FDI. This took the form of a renewed commitment to the privatisation of state owned enterprises, a cut in subsidies to national mining industries, as well as the drastic lowering of royalty rates and corporate taxes – and even the outright abolishment of several other measures such as import duties and foreign exchange rates. This dramatically transformed the mining sector of reforming countries in a way that had become highly economically and financially attractive to foreign companies.

Not surprisingly, foreign investments in the extractive industry increased exponentially during the mid-1990s onward. It is estimated that under the distinct leadership of the World Bank, no less than 100 countries reformed their laws, policies and institutions during the 1990s (EIR, 2003: 10). The EIR stresses that 'in line with WBG advice', these new legislations, designed to ensure the protection of capital and to promote investment, successfully brought many developing countries to experience an investment boom in their mining, oil, and gas sectors (2003: 13). It is noted that exploration investment in Africa, which stood at 4 percent of worldwide exploration expenditure in 1991, rose to 17.5 percent in 1998, while mineral exploration and mine development investment in the continent doubled between 1990 and 1997 (EIR, 2003: 13).

However, the consecutive waves of reforms promoted by the World Bank in the mining sector of poor and indebted countries over the last decades, have significantly transformed the power dynamics between the different stakeholders involved and affected by the mining industry. Key to this contribution is the work of Campbell (2004, 2009) who demonstrates that while the reform of regulatory and legal frameworks in the mining sector in Africa has indeed contributed to a more favourable environment for FDI, the reform has also entailed: 'a process of redefining the role of the state that is so profound that it has no historical precedent' (2004: 7). Because of this, further argues the author: 'these measures have the potential effect in the countries concerned of driving down norms and standards in areas of critical importance to social and economic development, as well as the protection of the environment' (Campbell, 2004: 7). Such shifts are analysed in the following section in light of the rise of the social-development narrative.

b) New Mining Regimes and the Social-Development Agenda

While remaining resolutely focussed on the promotion of FDI, the *Third Generation* of mining codes [22] 21, as further coined by Campbell (2004), dedicates more attention to the social and environmental dimensions of mining activities. Such shift that took place in recent years represents an acknowledgment of the role that remains to be played by the state in terms of facilitation and regulation of the sector. The Bank observes: 'We have seen fundamental changes in the activities of governments from owner/operator of mining assets to a role of regulator/administrator while the private sector has moved from a position as a bystander to the driving force in mining investment and development' (World Bank, 2007). However, it is not the retreat of the state that the Bank is reaching for, but rather to transformation of the state's functions in a way that accentuates its ability to mediate, regulate and mobilise in favour of the private sector rather than its citizens.

It is within such a framework for the mining sector that the rise of the social-development narrative should be analysed. After decades of emphasis on deregulation, the Bank came to acknowledge that some form of regulation was required, notably in the social and environmental sectors. However, and this is the crucial idea underlying the social-development narrative, such social and environmental provisions are embedded in a framework which serves to mediate the risks facing investors above all else. In an analysis of the conceptualisation of the notion of 'risk' in the mining sector, Emel and Huber make a compelling argument by questioning how capital has come to claim a monopoly over the idea of risk (2008: 1397):

> Largely ignored in the financial risk lexicon are the environmental, economic, social and public health risks to the landowner whether it be the host state or the local community. These latter risks – recognized as significant by local community members, indigenous groups, and non-governmental organizations that resist mines – are viewed by investors, banks, and mining companies as engineering and social

21) See Hatcher (2004) for an analysis of the Malian mining sector, which is a compelling illustration of a third generation mining code.

> issues that can be mitigated. The host government is pressured with discouraging significant attention to these risks because they do heighten 'political risk' and thus their recognition will make the possibility of capital investment all the more precarious (Emel and Huber, 2008: 1398).

The recent imperative for the participation of local populations, as well as the new social and environmental provisions conveyed by the WBG's social-development narrative does not therefore translate a novel interest in the political empowerment of local entities. It rather encompasses a need to rally certain segments of civil society to manage local resistance and to reduce risk to the Industry. MIGA observes that:

> [···] well-designed environmental and social programs can help *manage potential reputational risks* for project sponsors, *reduce social conflicts* within communities, protect the environment and help *reduce political risks*. For these reasons, MIGA aims to help its clients take a responsible approach to the environmental and social aspects of their projects (Emphasis added. MIGA, 2009c: 1).

If corporate social responsibility is officially about ethics, it is in practice about risk management on the ground. In this light, the participatory schemes offered to local communities serve to inject legitimacy to the Industry while channelling and neutralising the possible voices of contestation that might arise. While framed within a poverty reduction narrative, the politically sensitive questions linked to corporate profit, social and environmental risks, and the very role of the state are conveniently set aside. The *political* dimensions of the mining regimes promoted by the Bank over the last decades – which encompass recommendations notably on the rule of law, property rights, low taxation, low levels of tariffs and import barriers – have indeed been presented as 'technical' matters of efficiency and thus set outside the reach of public debates. As summarised by Campbell:

> An overriding emphasis on internal processes characterised by a lack of transparency, coupled with essentially administrative approaches to reform in favour of greater transparency and accountability, if tak-

> en alone, run the danger of treating the symptoms of a particular 'politics of mining' and not the relations of influence and power which make such dysfunctional processes possible (Campbell, 2009: 3).

While the WBG frames all its activities under the umbrella of poverty reduction, the social, economic and environmental impacts of mining on local communities are addressed within a technical framework which purposely sets aside the very political nature of the mining regime that it has been promoting. In other words, while enticing legal and economic provisions are being offered to mining companies to 'compensate' their risk for investing in reforming countries, the state has delegated its role as regulator to the private sector. As argued by Szablowski (2007) the legal and practical conditions required to attract FDI have circumscribed the nation state's ability to respond to internal political pressures. As such, observes the author, coping strategies in order to reconcile competing internal and external pressures have led the state to formally award rights to the investor, while informally delegating local regulatory responsibilities: 'Accordingly, it appears that states themselves are involved in transferring legal authority to mineral enterprises to manage social mediation' (Szablowski, 2007: 27). The Bank observes:

> [⋯] the 'shrinking state' has meant new responsibilities for private mining companies. Other private sector actors have also taken prominent positions; that is, the community members and representatives, including NGOs. In the area of environmental and social responsiveness, the industry has moved from a phase of awakening and acceptance to full integration of environmental considerations in project preparation and operations (World Bank, 2007).

There is a tendency to frames the socio-environmental issues linked to mining activities in terms of 'externalities', rather than 'risks' posed to local communities. It conveniently allows for such concerns to be addressed, and indeed overcome, by multiplying 'technical' initiatives focused notably on capacity building. As such, the Bank suggests that the 'adverse consequences' of mining activities on local communities could be better addressed notably if the local people had 'the requisite skills to take advantage of the opportunities' (World Bank, 2005: 6). Hence, in recent years the

WBG has multiplied its technical initiatives to enhance local capacity, as well as to persuade the Industry to strengthen their standards and their community programmes such as school and health care provisions.

As noted earlier, IFC and MIGA's framework in addressing poverty builds on the potential of FDI such as building roads, providing clean water and electricity, and above all, providing jobs. The EIR however, found that 'the poorest do not benefit from extractive industries' and that investments that did make contributions to poverty alleviation and capacity building through infrastructure (such as electrification or potable water systems) 'do not benefit the poorest because tariffs are out of reach or distribution systems are not egalitarian' (EIR, 2003: 18). The extractive sector is an enclave industry which benefits to the local economy remains highly questionable. As such, while IFC claims that its clients provided 120,000 jobs in oil, gas, mining, and chemicals in 2007 (2008: 47), compelling analyses have rather shown that large-scale mining, while capital-intensive, does not actually create many long-term job opportunities (Campbell, 2004, 2009; BIC et al., 2006). It is illustrative to note that while the IFC-financed Ahafo mine in Ghana, created 3,300 temporary jobs during construction, the mine would ultimately provided 620 permanent jobs (IFC, reported in BIC et al., 2006: 6). Amongst the roots of such disparities is the fact that the important technological requirements of the mining industry necessitate expatriates to be hired for the technical positions. In addition to sometimes requiring a displacement of population away from their livelihood, a new mine may also bar local communities from accessing an artisanal mine site and thus deprive them of their livelihood. In terms of local economic benefits, an international NGO coalition study of the WBG's activities in gold mining concluded that since governments have been brought to remove the legal requirements for investors to hire or buy a certain portion of their supplies locally, there are no guarantees that local businesses would profit from a mine (BIC et al., 2006).

Meanwhile however, the Industry has highly benefited from the reform of the mining sector over the last decade. Emel and Huber observe that in 2005, the government of Tanzania received approximately $30,000,000 in royalties and corporate income taxes while the mining companies produced $640,000,000 worth of gold (2008). The authors state that: 'Even if production costs are one-half of the total value (a huge overestimation) the profits are 10 times what the rents are' (Emel and Huber, 2008: 1403). What is further compelling is that despite such profit margins, companies benefit from additional 'risk' protection, notably from MIGA. An Operations Evaluation Group report found that while investments in the mining sector were indeed riskier than in other sectors, successful investments were more likely to result in large returns (OEG, 2005: 115). Beyond this 'handful of very big winners' in IFC's portfolio, it is to be noted that an OEG evaluation found that four out of ten projects that were not successful for investors still had adequate economic rates of return (greater than 10 percent) (2005: 115).

One may argue that such emphasis on risk for investors is rather telling of the WBG's inherently *political* strategy in the mining sector of reforming countries. Such strategy appears to be highly beneficial to the Industry while the economic benefits, notably at the local levels, are falling short of the riches promised by the Group. Meanwhile, despite the social-development narrative, the social and environmental costs faced by local communities remain severe. What is crucial to note is that however enticing for 'risk' investors, the particular policy framework promoted by the Bank has restricted reforming states in their ability to explore alternate strategies for maximising the potential economic returns of the sector. Key alternative initiatives, such as the local transformation of mineral material, have indeed been discouraged[22].

c) Complimentary Roles or Conflicting Interests?

Beyond the debatable strategy of pursuing pro-poor growth via a narrow focus on FDI, there exists a degree of contradiction between the pursuit of poverty reduction and the *for-profit* endeavours of MIGA and IFC, notably in light of the Bank's parallel work on mining regimes. As a direct result of the profound transformation of the mining environment promoted by the World Bank, the portfolio of MIGA and IFC in the sector greatly benefited. The 'complimentary' roles assumed by IFC, MIGA and the Bank itself bring forth a certain degree of controversy in relation to the conflict of interests that may ultimately exist between the different organisations. In other words, beyond the ongoing debate over the merits of the funda-

22) Alternative schemes to heighten the contribution of the mining sector to local and national economies throughout the last decades have often been derailed. On the subject, see for example Campbell who maps the repeated attempts of Guinea to transform locally its leading raw material (2009).

mentals promoted by the Bank in country-clients to tackle poverty, the issue of IFC and MIGA directly benefiting from the policies promoted by their parent organisation remains. On the one hand, the Bank has had tremendous influence in transforming the economic climate of reforming countries in order to attract FDI while on the other hand, it's affiliates have been directly investing and insuring in the private sector of these countries. However, there exists a certain contradiction between the pursuits of poverty reduction as stipulated by the Bank, and directly investing or insuring mining companies which unequivocally seek profits. International NGO coalitions have questioned the merits of investing taxpayers' money and scarce foreign aid dollars into companies such as Domino's Pizza, Coca-cola, or Radisson and Marriot luxury hotels, which are all IFC or MIGA's clients (Guttal, 2007; BIC, 2009).

The increasing coordinating mechanisms, notably between the Bank and IFC, raise concerns about the dual agendas of the pursuit of profit and the pursuit of poverty reduction, environmental protection and social safeguards. While the new IDA/IFC Secretariat is said to translate IFC's 'growing awareness of the role the private sector plays in helping the poorest countries reduce poverty and improve people's lives' (IFC, 2008: 24), serious doubts persist in relation to the degree of attention the poverty reduction agenda will be assigned in relation to the quest for profit. Bray underlines that ultimately, the role of business is to create prosperity and that this limits its willingness to address broader social problems, particularly those brought on by conflict (2003: 297).

Moreover, there ultimately exists some degree of concern as the fundamental role played by public organisations in not only investing directly in *for-profit* projects, but in highly sensitive environment as well. In light of the clear conclusions of the EIR that IFC and MIGA should refrain from investing in mining projects of conflict-affected countries (EIR, 2003: 47), it is crucial to question the *catalytic* role of IFC and MIGA in specifically risky environment. This substantial influence of MIGA and IFC in the mining sector is closely linked to the fact that they are integral parts of the WBG. As such, both affiliates draw on the significant economic and political weight wielded by the multilateral organisation. IFC and MIGA's clients benefit from the leverage their multilateral partners are bringing to projects in difficult or frontier markets: 'Governments have a vested interest in the sustainability of investments covered by MIGA' (MIGA, 2009c: 4). As further summarised by MIGA:

> As part of the World Bank Group, and having as our shareholders both host countries and investor countries, MIGA brings security and credibility to an investment that is unmatched. Our presence in a potential investment can literally transform a 'no-go' into a 'go.' We act as a potent deterrent against government actions that may adversely affect investments. And even if disputes do arise, our leverage with host governments frequently enables us to resolve differences to the mutual satisfaction of all parties (MIGA, 2009a).

In a World Bank contribution on *Natural Resources and Violent Conflict,* Bray conveys that although working with MIGA is more complicated and time-consuming than working with the private sector, companies value MIGA's involvement 'because of the extra political weight carried by the World Bank Group' (2003: 324). Bray further observes that: 'It is understood that host countries are reluctant to antagonize the World Bank by threatening MIGA-sponsored projects, and, throughout the organization's history, there has been only one claim' (Bray, 2003: 324). After all, since its inception, MIGA only paid a claim once – a derisory 15 million to Enron in 2000[23].

Conclusion

Amidst the current challenges to meet the *Millennium Development Goals*, there has been great emphasis in recent years on the urgency to better understand the correlation between mining activities and pro-poor economic growth. While different stakeholders have been multiplying technical initiatives in order to mitigate the social and environmental costs of mining activities, notably on local communities, less attention has been given to the particular impact of the coordinated role of the members of the WBG in specifically enticing 'risk' investments in reforming countries. It appears that the conceptualisation of risk has been overwhelmingly dedicated to the multiple threats that investors have to confront in investing in such sector. Far less attention has been given to the contradictions inher-

23) On the subject, as well as other case studies of MIGA, see Moody (2005).

ent to WBG's strategy, which correlates the pursuit of FDI in a sector that has been widely acknowledged to be environmentally and socially contentious, with poverty reduction.

While the shift towards a social-development narrative by the WBG has marked the instigation of stricter policy and safeguards in the sector, it was observed that they fall short of mitigating the environmental, social and human rights issues inherent to the sector. It was rather argued that the social-development narrative is better understood in light of the new mining regimes that have been pushed forward by the Bank in the last decade. Such regimes have severely transformed the power dynamics between the different stakeholders involved in the mining industry. As a result of the dual tensions caused by the pressures to deregulate the mining sector on the one hand, and on the other hand, the rise of contestation against the social and environmental costs of mining activities, reforming states have been increasingly delegating some of their authority into the hands of the Industry. The social-development narrative therefore, encompasses a pale attempt by the WBG and the Industry to manage the social tensions inherent to mining activities.

Ultimately, the WBG's strategy in relation to the mining sector brings forth serious concerns in relation to the conflict of interest that lies within the Group. While the Bank has been highly successful in enticing mining regimes reform and thus multiplying investments in the sector, IFC and MIGA have been partnering with the private sector and amassing profits. The WBG however, remains a public institution with a stated objective of freeing the world of poverty. As such, it was argued that there exists a profound contradiction between the Bank's pursuits of poverty reduction on the one hand, and on the other, IFC and MIGA's pursuit of profit via the promotion of risk investments.

At a time when MIGA and IFC are distinctly multiplying their efforts towards fragile states, notably post-conflict states, such conclusions further raise a particular set of interrogations as the Extractive Industries Review unequivocally concluded that: 'Under no circumstances should IFC and MIGA support oil, gas, and mining projects in areas involved in or at high risk of armed conflict' (EIR, 2003: 47).

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